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DEPT FOR NEA/I, TREASURY FOR DEPUTY SECRETARY KIMMITT

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TAGS: [EAID](#) [ECON](#) [EFIN](#) [ETRD](#) [IZ](#) [KU](#) [PGOV](#) [PREL](#)
SUBJECT: IRAQ COORDINATOR SATTERFIELD AND ARAB FUND OUTLINE
A WAY FORWARD ON ASSISTANCE TO IRAQ

REF: A. KUWAIT 568
[1](#)B. 06 KUWAIT 4311
[1](#)C. KUWAIT 185

Classified By: Economic Counselor Timothy A. Lenderking for Reasons 1.4
(b) and (d)

[1](#)1. (C) Chairman of the Arab Fund Dr. Abdelatif Al-Hamad told Iraq Coordinator David Satterfield on April 23 that the Arab Fund remained open to lifting Iraq's suspension in the Fund provided the GOI signaled agreement to a previously discussed repayment regime and began paying down its arrears (Ref A). The Fund put the amount of arrears at 31.5 million Kuwait dinars (USD 110 million, slightly more than the figure given to Treasury Deputy Secretary Kimmitt in their October 2006 meeting, per Ref B). Al-Hamad indicated that hundreds of millions of dollars in concessional loans could flow to Iraq once that happened. Satterfield suggested that once the arrearage was resolved to the Fund's satisfaction, GOI and U.S. experts could travel to Kuwait for consultations with the Fund and other Arab donors on specific project support to Iraq. Al-Hamad said the Fund would be happy to host such an event, provided the U.S. cleared the proposal at the political level with key Arab donors such as Saudi Arabia and UAE. Al-Hamad indicated a representative of the Fund would attend the Iraq Compact signing in Egypt on May 3. End Summary.

Solving the Arrears Problem

[1](#)2. (C) Over lunch hosted by the Arab Fund for Economic and Social Development on April 23, Iraq Coordinator Satterfield and the Chairman of the Fund Dr. Abdelatif Al-Hamad discussed how to resolve Iraq's suspension from the Arab Fund due to its long-standing debts. (Ambassador, Treasury NEA Deputy Director Nugent, four Arab Fund officials, and emboffs were also present). Al-Hamad explained that Iraq was suspended from the Arab Fund in February 1990 having accrued unpaid debt of 31.5 million Kuwait dinar (USD 110 million in today's dollars). Al-Hamad noted that the Fund charged no interest on the debt. Technically, he said, Iraq had been expelled from the Arab Fund, since according to the Fund's regulations failure to make even a single payment jeopardizes a country's membership. Al-Hamad reiterated to Satterfield the agreement that he thought he had reached with Iraqi Planning Minister Baban on the margins of the Iraq Compact meeting in October 2006, but Al-Hamad said the Iraqis had never followed through to officially signal their agreement and start repayments. Al-Hamad was perplexed as to why the Iraqis seemed to be unclear about the agreement or next steps since he and Baban had signed a one-page document reflecting the terms discussed. Al-Hamad restated the Arab Fund remained ready to

offer assistance to Iraq once the GOI formally agreed to the terms discussed and started repayments.

¶3. (C) Al-Hamad said he could not give a specific figure on how much assistance the Fund could offer Iraq, but noted that the Fund had pledged USD 700 million over five years to Lebanon at Paris III, and 700 million Kuwait dinar (USD 2.45 billion) to Yemen at the November 2006 pledging conference in London. "You draw your own conclusions," Al-Hamad said.

¶4. (C) Treasury NEA Deputy Director Nugent told Al-Hamad that Iraqi Deputy PM Salih had assured Treasury Deputy Secretary Kimmitt that the GOI was committed to resolving the

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arrears problem and getting back into the Fund's good standing.

Regional Consultations: An Information Exchange

¶5. (C) Ambassador Satterfield agreed that the first step was for Iraq to resolve the arrears issue to the Fund's satisfaction. Once that happened, Satterfield suggested that a consultation take place in Kuwait bringing together Barham Salih, a team from Embassy Baghdad, and representatives of major Arab donor institutions -- the Kuwait Fund, Saudi Fund, Arab Development Bank, among others -- to exchange information on Iraq's needs and to provide an opportunity for Arab donors to ask questions of the Iraqis. Satterfield stressed this should not be a pledging conference or a U.S.-hosted event. Al-Hamad thought this was a good idea and said the Arab Fund would be happy to host such an event. He stressed, however, that the U.S. would have to consult with key donors such as the Saudis and Emiratis on the political level beforehand. Al-Hamad noted that Arab donors already do

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a significant amount of coordination. He referenced the donor coordination event the Arab Fund hosted in February which brought together leading Arab and western donor organizations for a day of consultation and information exchange (Ref C).

¶6. (C) By way of background, Al-Hamad said the Arab Fund increased annual lending in 2006 to USD 1.2 billion. He said loan terms were normally 21 years, with a 4-6 year grace period. Interest rates were 3% for less developed countries and 4.5% for non-LDCs such as Iraq. He also described the Fund's operations style: no offices in recipient countries, minimal staff at headquarters (118 total employees, about fifty of whom are technical experts and the rest support staff), and reliance on local contractors.

Iraq Compact Attendance

¶7. (SBU) Al-Hamad confirmed that the Fund's senior financial advisor Dr. Khalifa Ali Dau, also present at the lunch, would attend the ICI event in Sharm El-Sheikh on May 3.

¶8. (U) Iraq Coordinator Satterfield has cleared this cable.

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